

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SCEM-02 SCI-06 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 EB-11 FRB-02 H-03 INR-10

INT-08 L-03 LAB-06 NSAE-00 NSC-10 PA-04 RSC-01 AID-20

CIEP-02 SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01

SPC-03 OMB-01 NEA-10 DRC-01 /208 W

----- 023622

R 171834Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6541

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: CHANCELLOR BARBER'S MINI-BUDGET OF DECEMBER 17

REF: LONDON 14808

BEGIN SUMMARY: CHANCELLOR OF THE EXCHEQUER BARBER PRE-
SENTED THE GOVERNMENT'S MINI-BUDGET TODAY WHICH WILL RELY
MAINLY ON CUTS IN PUBLIC EXPENDITURE AND STRICTER

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CONTROL OF HIRE PURCHASE AND OTHER CONSUMER CREDIT TO

MEET THE EMERGENCY WHICH HAS DEVELOPED FROM THE COAL AND OIL SHORTAGES. IT APPEARS THAT THE GOVERNMENT BELIEVES THAT OVER THE NEXT 30 TO 60 DAYS, THE HIRE PURCHASE AND CREDIT RESTRICTIONS WILL BE ADEQUATE TO LIMIT DEMAND WHILE UK INDUSTRY IS ON A SHORT WORK WEEK. THE PUBLIC EXPENDITURE CUTS ARE DIRECTED AT A LONGER TERM DEMAND DEFALTION IN THE SECOND, THIRD, AND FOURTH QUARTERS OF 1974. THE GOVERNMENT ALSO INTRODUCED A TAX ON LAND AND A SURCHARGE ON THE TAXES OF HIGHER INCOME RESIDENTS. THERE WERE NO OTHER CHANGES IN DIRECT OR INDIRECT TAXATION. END SUMMARY

1. THE GOVERNMENT WILL CUT PUBLIC EXPENDITURE BY 1.2 BILLION POUNDS IN 1974, BASICALLY CUTTING BACK ON BUILDING CONSTRUCTION AND THE PURCHASE OF GOODS AND SERVICES. THERE WILL BE NO REDUCTION IN INVESTMENT IN ENERGY INDUSTRIES OR IN HOUSING. BARBER ANNOUNCED THAT PUBLIC EXPENDITURE ON GOODS AND SERVICES IS NOW EXPECTED TO FALL BY 3.5 PERCENT NEXT YEAR AND THAT TOTAL PUBLIC EXPENDITURE WILL BE DOWN BY 2 PERCENT INSTEAD OF RISING BY 2 PERCENT AS THE GOVERNMENT HAD PLANNED UNTIL NOW.

2. NO CHANGES IN DIRECT OR INDIRECT TAXATION WERE ANNOUNCED. BARBER DID STATE THAT THERE WILL BE A 10 PERCENT SURCHARGE ON THE SURTAX TO WHICH PEOPLE WHO EARN MORE THAN 5,000 POUNDS PER YEAR ARE SUBJECT. PERSONS OVER 65 WILL BE EXEMPT FROM THIS. BARBER ALSO ANNOUNCED IMPLEMENTATION OF A TAX ON TRANSACTIONS IN LAND WHICH IS DESIGNED TO CURB PROPERTY SPECULATION.

3. THE IMMEDIATE INSTRUMENT BY WHICH DEMAND WILL BE REDUCED IS THROUGH MUCH STRICTER HIRE PURCHASE AND OTHER CONSUMER CREDIT REGULATIONS. DETAILS ON THESE HAVE NOT YET BEEN ANNOUNCED. BARBER ALSO ANNOUNCED THAT CLEARING BANKS WOULD BE ASKED TO CHANGE PRACTICES IN ORDER TO PREVENT "ARBITRAGING", A PRACTICE OF BORROWING USUALLY ON OVERDRAFT AND REDEPOSITING AT HIGHER MONEY MARKET RATES. HE ALSO STATED THAT A NEW TECHNIQUE WOULD BE DEVELOPED FOR BANKS TO BE REQUIRED TO PLACE SPECIAL UNCLASSIFIED

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DEPOSITS WITH THE BANK OF ENGLAND WHEN THEIR OWN INTEREST
N/A
SOHM

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SPC-03 OMB-01 NEA-10 DRC-01 /208 W

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R 171834Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6542

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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BEARING LIABILITIES GROW AT MORE THAN A SPECIFIED RATE.
THE SECOND 1 PERCENT OF SPECIAL DEPOSITS WHICH WERE
ANNOUNCED LAST MONTH WILL NO LONGER BE REQUIRED AS A PART
OF THIS PACKAGE. THE DETAILS OF THESE CHANGES IN BANKING
REGULATIONS HAVE NOT YET BEEN ANNOUNCED EITHER.

4. THERE WERE NO MEASURES SPECIFIED DIRECTLY AT BALANCE
OF PAYMENTS, THOUGH THE HIRE PURCHASE AND CREDIT
RESTRICTIONS WILL IMPACT UPON IMPORTS EQUALLY WITH
DOMESTIC GOODS.

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5. COMMENT: AT FIRST GLANCE, IT APPEARS THAT THE "MINI-BUDGET" IS AIMED MORE AT THE LATTER HALF OF 1974. HIRE PURCHASE AND CONSUMER CREDIT TIGHTENING WILL WORK QUICKLY TO REDUCE DEMAND, BUT AS CONSUMERS ADJUST, WILL NOT HAVE A LONG LASTING EFFECT. THEIR IMMEDIATE IMPACT WILL FALL MAINLY ON CONSUMER DURABLES, PARTICULARLY AUTOS. ON THE OTHER HAND, PUBLIC EXPENDITURE CUTS, GIVEN THE USUAL LAGS IN THE IMPACT OF FISCAL POLICY, WOULD NOT REALLY BE FELT UNTIL THE SECOND QUARTER OF 1974, AND THEIR MAIN IMPACT WILL PROBABLY COME IN THE SECOND HALF OF THE YEAR. THUS, THE UK SEEMS CONVINCED, AS REPORTED IN REFTEL A, THAT UK POTENTIAL OUTPUT GROWTH WILL FALL NEXT YEAR FROM THE ENERGY CRISIS AND HAS ACTED TO REDUCE DEMAND IN LINE WITH THAT OUTLOOK.

6. THE TAX CHANGES WOULD APPEAR TO BE PURELY COSMETIC. NEITHER THE SURTAX ON HIGHER INCOME EARNERS NOR THE LAND TAX WILL OPERATE WITH ANY PARTICULAR SPEED OR MAGNITUDE TO REDUCE DEMAND. BOTH HAD BEEN CALLED FOR BY MANY IN BOTH PARTIES AND THE PRESS.

7. DETAILS OF THE CHANGES IN THE CREDIT REGULATIONS AS WELL AS THOSE FOR BANKING ARE NOT KNOWN YET. THE EMBASSY WILL REPORT THESE WHEN THEY BECOME AVAILABLE.

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